

Date:	May 26, 2004	
W.I.:	1254	
Referred by:	BATA Oversight	
Revised:	12/15/04-BATA	02/28/07
	12/21/05-BATA	12/19/07
	01/24/07-BATA	02/27/08

ABSTRACT

BATA Resolution No. 51, Revised

This resolution establishes BATA's debt policy with respect to the issuance and management of BATA debt.

Attachment A to this Resolution was revised on December 15, 2004 to clarify the use of derivative financial products for BATA's debt financings.

Attachment A to this Resolution was revised on December 21, 2005 to expand credit criteria for potential BATA Swap counterparties.

Attachment A to this Resolution was revised on January 24, 2007 to establish counterparty limitation based on credit rankings.

Attachment A to this Resolution was revised on February 27, 2008 to establish counterparty limitation based on credit rankings.

Further discussion of this resolution is contained in the Executive Director's memorandum dated April 5, 2004, December 1, 2004, December 7, 2005, January 24, 2007, December 5, 2007 and February 6, 2008.

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W.I.: 1254
Referred by: BATA Oversight

Re: BATA Debt Policy

BAY AREA TOLL AUTHORITY
RESOLUTION No. 51

WHEREAS, Streets and Highways Code Sections 30950 *et seq.* created the Bay Area Toll Authority (“BATA”); and

WHEREAS, Streets and Highways Code §§ 30950 *et seq.* transfers to BATA certain duties and responsibilities of the California Transportation Commission (“CTC”) and California Department of Transportation (“Caltrans”) for the toll bridges owned and operated by Caltrans in the San Francisco Bay Area; and

WHEREAS, in accordance with Streets and Highways Code § 30950.2, BATA is responsible for programming, administering, and allocating all toll revenues, except revenues from the seismic retrofit surcharge, from state-owned toll bridges within the jurisdiction of the Metropolitan Transportation Commission; and

WHEREAS, Bay Area bridges are defined in Streets and Highways Code § 30910 to include the Antioch, Benicia-Martinez, Carquinez, Richmond-San Rafael, San Francisco-Oakland, San Mateo-Hayward, and Dumbarton Bridges, and

WHEREAS, under Regional Measure One (RM1), the Bay Area Toll Authority issued RM-1 toll revenue bonds of \$400 million in May 2001, \$300 million in February 2003, with a total expected project financing size of \$1 billion; and

WHEREAS, the Bay Area Toll Authority is expected to issue \$1.6 billion toll revenue bonds under Regional Measure 2 (RM-2) in the future and

WHEREAS, consistent accounting guidelines, credit standards, and securities compliance as proposed by Government Finance Officers Association (GFOA), Government Accounting Standards Board (GASB), Municipal Securities Rulemaking Board (MSRB), and nationally recognized rating agencies (Fitch, Moodys, and Standard & Poors) for debt issuance and management recommend an adopted debt policy; now, therefore, be it

RESOLVED, that BATA hereby adopts BATA Resolution No. 51, as set forth in Attachment A to this Resolution, and incorporated herein as though set forth at length, which establishes BATA's debt policy with respect to the issuance and management of BATA debt.

BAY AREA TOLL AUTHORITY

Steve Kinsey

The above resolution was first entered into by the Bay Area Toll Authority at a regular meeting of the Authority held in Oakland, California, on May 26, 2004.

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BAY AREA TOLL AUTHORITY DEBT POLICY

Introduction

The purpose of the Debt Policy is to establish guidelines for the issuance and financial management of the Bay Area Toll Authority's (Authority) debt. This Debt Policy is intended to guide decisions related to any debt issued by the Authority. The Authority recognizes that cost-effective access to the capital markets is highly dependent on sound management of the Authority's debt program.

Objectives

The purpose of the Debt Policy is to assist the Authority in meeting the following objectives:

- issue debt in accordance with established guidelines
- complete an approved capital financing plan
- timely repayment of debt
- maintain the highest of ratings that are consistent with the financing plan
- ensure compliance with applicable State and Federal laws
- assure access to credit markets
- preserve financial flexibility

The Authority's Debt Policy shall be reviewed and updated at least annually and presented to the Board for approval. The Debt Policy requires that the Authority's Board specifically authorize each debt financing by resolution approved by the Board.

I. Long Term Debt Financing

- A. The Authority will use the following criteria to evaluate pay-as you-go versus long-term debt financing in funding capital projects.

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- 1) Factors that favor pay-as-you-go:
 - a) Current revenues and adequate fund balances are available
 - b) Project phasing is feasible
 - c) Debt levels could adversely affect the Authority's credit rating
 - d) Market conditions are unstable or present difficulties in marketing long-term debt
- 2) The Authority will consider the use of long-term debt financing for capital projects under, but not limited to, the following circumstances:
 - a) When the project's useful life will equal or exceed the term of the financing.
 - b) Revenues available for debt service are considered self sufficient and reliable so that long term financing can be marketed with an appropriate credit rating.
 - c) The project that is being considered will not adversely affect the Authority's credit rating.
 - d) Market conditions present favorable interest rates.
 - e) High priority projects that result from regional or economical conditions that require use of long term debt.
- 3) Each debt issuance shall be approved pursuant an individual resolution specifying the following:
 - a) Total principal-- amount of the bonds.
 - b) Maximum interest rate, not to exceed 12%.
 - c) All fees associated with the issuance.
 - d) Bonds are to be fixed or variable.

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- e) Any other special terms or conditions.
- B. The Authority may use debt in special circumstances for projects other than long-term capital projects. Long-term debt will not be used to fund any ongoing operational costs.
- C. The Authority may use lease financing as appropriate means of financing capital facilities, projects and certain equipment. The useful life of the capital equipment, the terms and conditions of the lease and budget flexibility will be evaluated prior to the implementation of the lease obligation. Efforts will be made to fund capital on a pay as you go basis where feasible.
- D. No debt shall be issued without approval of the resolution by the Board.

Capital Financing Plan

A Capital Financing Plan will be prepared for each long term debt financing. Analysis must include, but is not limited to, the following requirements:

- a) description and availability of all sources of funds
- b) timing and priority of capital projects
- c) a financing plan which includes but not limited to:
 - 1) debt coverage
 - 2) debt covenants
- d) debt service requirements
- e) effect of projects on debt capacity
- f) measurable objectives or goals

Debt Service Reserve Fund

A debt service reserve fund (DSRF) will be funded with every bond issue. The reserve will be funded with bond proceeds or a DSRF surety policy provided by a rated bond

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insurer. An analysis and financing plan will be prepared for each debt financing which analyzes the optimal method of funding the DSRF and selecting the appropriate bond insurer to achieve project objectives and support debt service.

II. Short Term Financing

Short term borrowing may be utilized for any purpose for which long term debt may be issued. Additionally, short-term borrowing may be utilized as a source of temporary funding of operational cash flow deficits, of anticipated revenues, of inter-fund borrowing or as an interim source of funding in anticipation of long-term borrowing. Short term debt can be issued as follows, but not limited to:

- a) Bond Anticipation Notes (BANs)
- b) Tax and Revenue Anticipation Notes (TRANs)
- c) Grant Anticipation Notes (GANs)
- d) Lines of Credit/Letters of credit
- e) Commercial paper (CP)

A financing plan must be submitted prior to the use of short term financing.

III. Variable Rate Debt

The Authority may issue variable rate debt. It is often appropriate to issue variable rate debt to diversify the debt portfolio and improve the match of assets to liabilities. An analysis and budgeting plan will be prepared for each debt financing which analyzes the optimal amount of hedged and unhedged variable rate debt appropriate to achieve project objectives and support debt service.

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IV. Credit Enhancements

The Authority may purchase bond insurance, letters of credit or other means of credit enhancement for its borrowing if the credit enhancement improves the credit quality of the bonds and as a result provide the Authority with interest cost savings or other substantial market advantages. An analysis of utilizing credit enhancement instruments will be prepared for each debt financing to determine if there is appropriate value to support purchasing the enhancement.

V. Structured Financial Products (Derivatives)

The Authority may utilize derivative products such as floating-to-fixed and fixed-to-floating rate swaps as a tool to manage interest rate risk or reduce interest rate cost in the debt portfolio. Derivative products will be evaluated on a case-by-case basis to determine the value of potential benefits as well as a clear understanding of structured products.

The Authority will consider the following risk when considering structured products:

- 1) Counterparty risk: The counterparty's ratings, or the ratings of an entity controlling the counterparty, must be the equivalent of "A+" or better from three nationally recognized rating agencies at the time of the execution of the documents for the transaction, and the counterparty must maintain ratings that are equal to or better than BATA's current ratings from any two nationally recognized rating agencies.

1A. Counterparty Limits:

Corporate Rating ^(a)	Counterparty Security	Portfolio Limit	Single Firm Limit
AAA	Insurance	No Limit	No Limit
AAA Agreement	Over-collateralized	No Limit	No Limit
AA ^(b)	Collateral	No Limit	50%
A+	Collateral	10%	10%

a) – or equivalent

b) – without graduation

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- 2) Credit risk: Swap agreement will require unilateral posting by the counterparty if it fails to maintain its credit ratings
- 3) Counterparty exposure risk: The Authority will attempt to use different counterparties to diversify exposure; however, the selection of a counterparty should not be at the expense of pricing or other credit factors.
- 4) Termination risk: Swap agreement will allow the Authority the unilateral option to terminate the swap at any time with 30 days notice.
- 5) Rollover risk: All swap transactions will be coterminous with the bonds issued.
- 6) Amortization risk: The swap will be structured to amortize with the underlying bond.

Structured financial derivative products may not be used for speculative purposes. Derivative products shall not be used for the sole purpose of generating operating or capital proceeds. Prior Board approval is required in order to utilize a derivative product.

VI. Debt Capacity

An analysis and financing plan will be prepared for each debt financing which analyzes the optimal amount of debt capacity to achieve project objectives and support debt service. Debt levels will be maintained at a level consistent with project objectives and creditworthiness goals.

VII. Refunding

Debt issues will be monitored, on an ongoing basis, for potential savings via refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net present value economic benefit of 3% resulting from the refunding. Refundings that are non economic may be undertaken to achieve other project objectives such as, changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile. An analysis will be prepared discussing the economic merits of the refunding and presented to the Board.

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VIII. Bond Proceeds

Proceeds will be invested in compliance with the provisions of the bond indenture, federal and state tax requirements, and as well as the adopted Investment Policy.

IX. Bond Covenants and Laws

The Authority shall comply with all covenants and requirements of the bond resolutions, and State and Federal laws authorizing and governing the issuance and administration of debt obligations.

X. Continuing Disclosure

In addition to annual audit and reporting disclosures, the finance department shall comply with all continuing disclosure requirements including Rule 15(c)2-12 of the Securities and Exchange Commission by filing an annual report with each Nationally Recognized Municipal Securities Information Repository and State Repository, if any, that provides certain required financial information and operating data relevant to bondholders within 270 days of the close of the fiscal year.

XI. Arbitrage and Rebate Compliance

The finance department shall maintain a system of accounts, record keeping and reporting as required under Generally Accepted Accounting Principals (GASB) bond covenants and resolutions.

The use of bond proceeds and their investments must be monitored to ensure timely compliance with both current and future federal tax arbitrage restrictions. All rebates, if any, shall be made in a timely manner.

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XII. Bond Rating Agency

The finance department shall be responsible for maintaining the Authority's relationships with the credit rating agencies. The Authority will maintain a practice of meeting regularly with credit analysts from the bond rating agencies to keep them informed of the Authority's borrowing plans, financial profile, and financial condition.

XIII. Investor Relations

The finance department will make all efforts to keep the various investors informed of current events surrounding the Authority. The finance department will make all efforts to respond to questions from fund managers in a most timely and efficient manner.



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Bay Area Toll Authority

Memorandum

To: BATA Administration Committee

Date: May 5, 2004

From: Executive Director

Re: BATA Debt Policy (BATA Resolution No. 51)

Debt management guidelines issued by Government Finance Officers Association (GFOA), Government Accounting Standards Board (GASB), nationally recognized rating agencies (Fitch, Moodys, and Standard & Poors) and Municipal Securities Rulemaking Board (MSRB) recommend adopting formal debt policies to reflect the Authority's commitment to consistent accounting guidelines, debt disclosure policies, and sound debt issuance and management practices.

In 1988, Bay Area voters approved a long range plan to fund highway and bridge enhancement and improvement projects (RM-1). In accordance with the Act, the Authority is authorized to issue \$1 billion in revenue bonds to finance the construction and improvement of the toll bridge facilities. BATA has since issued \$700 million RM-1 toll revenue bonds with an approximate \$300 million remaining to be issued in late 2004.

In 2004, Bay Area voters approved a long range plan to fund transportation projects (RM-2) to relieve traffic congestion. RM-2 will provide financing of up to \$1.6 billion in transportation projects.

BATA is currently responsible for managing the \$700 million debt portfolio. BATA's current debt portfolio profile includes:

		<u>Structured Products</u>
Natural Fixed Rate Debt	\$100 million	
Variable Rate Debt (VRDO)	\$600 million	
Synthetic Fixed Rate Debt	<u> </u>	<u>\$500 million</u>
	\$700 million	\$500 million
VRDO Structure:		
Auction Rate Securities	\$150 million	
Variable Rate Demand Obligations	<u>\$450 million</u>	
	\$600 million	

With each debt issuance, BATA's debt portfolio management responsibilities will increase. Total debt under the RM-1 program is expected to increase to \$1 billion by end of 2004. Upon completion of the RM-2 financing, the debt portfolio will increase to \$2.6 billion. BATA has also executed two synthetic floating-to-fixed rate swaps to mitigate interest rate risk within the debt portfolio. Since BATA is anticipating significant debt financing activity with both the RM-1 and RM-2 financing plans and continues to actively explore utilization of interest rate mitigation vehicles, staff is recommending that BATA adopt a Debt Policy (Exhibit 1) to formalize guidelines in debt issuance and management.

The recommend policy includes the following:

- factors to consider in utilizing long-term debt
- parameters governing size, maximum interest rate and fees
- prohibits against using long-term debt for on-going operations
- parameters governing the use of structured financial products (derivatives), including strict credit and disclosure standards as well as a prohibition on the use of structured products for "speculative purposes"

With these policies and standards in place BATA will continue to set the standard for accounting, reporting, and disclosure practices that it helped to establish with the RM-1 financing program.

Staff recommends that the BATA Oversight Committee refer BATA Resolution No. 51, Debt Policy, to the Authority for approval.

Steve Heminger